

G-007/M-94-1017 ORDER APPROVING PROPOSAL AS CLARIFIED AND GRANTING
VARIANCES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Tom Burton
Marshall Johnson
Cynthia A. Kitlinski
Dee Knaak

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Petition by Northern
Minnesota Utilities for Approval of an Annual
Recovery Mechanism for Conservation Related
Expenses

ISSUE DATE: February 21, 1995

DOCKET NO. G-007/M-94-1017

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PROCEDURAL HISTORY

In 1993, the Minnesota legislature authorized the Commission to permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements.

On October 31, 1994, Northern Minnesota Utilities (NMU or the Company) filed a petition seeking Commission approval of an annual recovery mechanism for Conservation Improvement Plan (CIP) expenses. The petition also sought a variance from certain Commission rules.

On December 23, 1994, the Department of Public Service (the Department) filed comments in favor of the Company's petition.

On February 2, 1995, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. THE NMU PETITION

In its petition NMU provided background for the rate adjustment request. NMU stated that its outstanding CIP tracker balance would be \$668,245 as of December 31, 1994. The Company projected its 1995 CIP expenditures at a minimum of \$192,000. Because NMU is currently collecting only \$79,500 annually in rates, the CIP tracker would grow by over \$200,000 per year without an adjustment.

Under NMU's proposal, it would be permitted to collect \$0.00525 per Ccf on customers' bills to recover past and current CIP expenses. The CIP balance would be amortized over three years.

The CIP adjustment would be added to the Purchased Gas Adjustment (PGA) to become a single billing line item entitled "Resource Adjustment Charge" (RAC). The addition of the CIP adjustment would require a variance to Minn. Rules, part 7825.2700 and Minn. Rules, part 7820.3500 (K), which state that the PGA adjustment shall be separately itemized on customers' bills.

NMU proposed submitting annual filings each January 1 to report collections and expenditures related to conservation. Based on those filings, the recovery factor would be adjusted and applied to bills each April 1.

NMU would notify customers of the new adjustment through bill inserts. The Company would also notify customers when the recovery factor changed.

II. COMMENTS OF THE DEPARTMENT

The Department recommended that the Commission approve the CIP adjustment proposal and the necessary variances. The Department found that the Company's CIP balances, calculations and projections were accurate.

NMU's filing did not describe how the Company would calculate the proposed annual true-up. The Department recommended that the true-up be calculated in a manner similar to PGA true-ups. Each year, NMU would set an adjustment amount to collect its projected CIP expenses. At the next adjustment filing, NMU would calculate a true-up amount which would equal the difference between actual expenditures and collections. Without "zeroing" the tracker, the Company would collect the latest true-up amount over the next twelve month period. Any over- or under-recovery of the true-up amount would be rolled into the next true-up.

During the course of its investigation, the Department noted another issue related to NMU's CIP calculation. The Department found that NMU had failed to comply with an August 5, 1993, Commission Order¹ establishing a demand-side management financial incentive pilot project. That Order had required the Company to file within 45 days a plan for measuring lost margins, a plan for evaluating the pilot project, and proposed dates for filing annual interim reports on the incentive. In addition, the Order had required the Company to submit annual reports giving the status of its CIP tracker, lost margins and bonuses accrued to date, and interim evaluations of the pilot project. The Department recommended that the Commission order NMU to submit the required filings as soon as possible, but no later than January 31, 1995.

III. COMMISSION ACTION

A. The Company's Proposal

The Commission finds that NMU's proposal for an annual CIP adjustment mechanism is reasonable and appropriate. The Company has not had a general rate case since 1984. Without an adjustment, its CIP expenditures would be approximately three times the amount recovered in rates and its CIP balance would continue to grow rapidly. A CIP adjustment will allow the Company to recover CIP expenditures in a timely fashion and with minimal rate shock for customers.

The Commission notes with approval that the Company's proposed charge per unit of consumption is one of the methods found appropriate by the CIP Adjustment Implementation Study Group.

The annual true-up methodology suggested by the Department is a sound proposal, proven effective in PGA filings, and also endorsed by the CIP Adjustment Implementation Study Group.

B. Completeness of the Filing

Although the Company's filing is now complete, it was necessary for the Department to solicit supplementary information from the Company and also to supply a true-up calculation method when none was included. The Commission expects that any filing submitted to the Commission,

¹ In the Matter of the Proposal of Northern Minnesota Utilities for a Demand-Side Management Incentive Mechanism, Docket No. G-007/M-92-518, ORDER ESTABLISHING DEMAND-SIDE MANAGEMENT FINANCIAL INCENTIVE PILOT PROJECT, CLARIFYING STATUS OF THE CIP TRACKER ACCOUNT, AND REQUIRING FURTHER FILINGS.

particularly one which has a rate impact on customers, should be complete and understandable on its face.

The Commission will require NMU's future CIP adjustment filings to contain a precise accounting of the CIP tracker and the derivation of the proposed surcharge. If future Company submissions do not contain the information necessary to deduce the basic filing requirements, the filings will be rejected and returned to the Company. The Commission urges the Company to work with the Department to clarify any filing issues which are unclear and to develop appropriate filing methods.

C. Variances

NMU proposes to combine the CIP adjustment and PGA adjustment into a single billing line item known as the RAC. The Company will therefore need a variance to Minn. Rules, parts 7825.2700 and 7820.3500, which require the PGA adjustment to be separately itemized.

The Commission finds that this fact situation fulfills the three criteria for granting a variance found in Minn. Rules, part 7829.3200.

First, enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule. Requiring separate itemization of the CIP and PGA adjustments would create unnecessary confusion for customers reading their monthly bills. Strict rule enforcement would not allow the Company the administrative efficiency of combining the monthly adjustments.

Second, granting the variance would not adversely affect the public interest. Any customer who asks the Company for an explanation of the components of the RAC will receive an itemized calculation.

Third, granting the variance would not conflict with standards imposed by law. The proposal is consistent with the recent legislation permitting CIP rate adjustments.

D. Compliance Filings

The Commission agrees with the Department that the Company should promptly submit the filing requirements imposed in the Commission's August 5, 1993, Order in the demand-side management docket.

ORDER

1. The Commission approves NMU's proposal for a CIP adjustment, as clarified by the Department.
2. The Commission grants NMU variances to Minn. Rules, parts 7820.3500 and 7825.2700 to allow NMU to combine the CIP adjustment and PGA adjustment into a single billing line item entitled "RAC."
3. The Company shall submit the filing requirements imposed in the Commission's August 5, 1993, Order in Docket No. G-007/M-92-518 as soon as possible.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar

Executive Secretary

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